

DN Sales Development & Implementation Steering Group Meeting 2

Lessons from BETTA Peter Bolitho Powergen UK

BETTA frameworks

In considering potential viable industry structures necessary to facilitate DN sales, it is useful to look at some of the frameworks that are currently being developed for the British Electricity Trading and Transmission Arrangements (BETTA).

Ofgem's latest regulatory impact assessment (RIA) illustrates that the case for DN sales is by no means clear cut. Whether Ofgem allows sales to proceed will depend ultimately on the net benefits to customers. Complex contractual arrangements, fragmented market rules and charging structures will inevitably increase shipper costs and lower standards of customer service. Ultimately effective competition in the shipping and supply of gas could be undermined. Minimising the adverse impact on shippers is thus in the interests of consumers.

Some key lessons that can be drawn from the BETTA project proposals include:

- 'User facing' codes (GB Balancing and Settlement (GB BSC) and GB Connection and Use of System Code GB (CUSC)) take precedence over the GB System Operator-Transmission Owner (SO-TO) Code.
- Users contract only with NGT under a uniform GB BSC and uniform GB CUSC.
- NGT as system operator (SO) is responsible for ensuring 'back to back' terms in the SO-TO Code.
- NGT invoices users and manages credit for the use of the Scottish transmission system and in turn make payments to Scottish and Southern Energy (SSE) and Scottish Power (SP).
- SO-TO Code is a vehicle for NGT to fulfil its obligations to Scottish users under the GB BSC and GB CUSC.

These simple, logical contractual structures ensure that generators and suppliers that are familiar with the England and Wales BSC and CUSC (99.9% of users) should find the transition to BETTA straight forward.

Applying lessons to Gas

It is clear that it is possible to organise the gas industry in such a way that to all intents and purposes shipper's day-to-day post DN sales interactions with NGT remain much as they are now. In gas there is no need for a multitude of codes and charging arrangements, nor are new contractual relationships required with the DNOs. The primary and only¹

¹ Excluding the arrangements with independent gas transporters (IGTs).

contract for the shipping and supply of gas (the uniform network code) should remain with NGT. Governance of the uniform network code can also be managed much as it is now, although charging methodologies would have to be jointly 'owned' by NGT and DNOs.

This vision can be realised by organising all 'shipper service' activities (including governance of codes and charging methodologies) into a Central Settlements Agency. Initially this would involve bundling all shipper related activities, systems and processes into an internally separated NGT business unit (see figure 1 attached). This coherent bundling together of activities would prevent unnecessary fragmentation of the services provided by NGT but would not subsequently preclude new ownership of the Central Settlements Agency or developments such as the Supply Point Administration Agreement (SPAA) to improve governance. It might even provide industry stakeholders with the opportunity to gain more say in the management of systems and processes across the full array of shipper and processes and systems and not just SPA.

At a future date unbundling of some of the activities of the Central Settlements Agency may be considered appropriate. That decision should be consciously taken based the costs and benefits at that time. However, NGT's current proposals for shippers to be party to separate DN network codes, albeit in 'short-form', is a contractual structure that in our view represents the first step on the 'slippery slope' to fragmented and incoherent market rules.

Whilst firmly endorsing the need for a uniform network code in their December 2003 Next Steps document Ofgem seems less willing to rule out moves that may ultimately lead to fragmentation of the charging arrangements. Unfortunately failure to be firm on this matter may ultimately mean new forms of charges, divergent charging methodologies and new and unnecessary billing and payment arrangements with DNOs. Concession to NGT in this area will make life more difficult for shippers and could lead to unforeseen consequences for customers.

DN transportation (distribution) charges and credit arrangements

Again minimum change for shippers should be the watchword. There is no reason why changes in the billing, payment and credit arrangements can not continue to be managed centrally. The Central Settlements Agency can jointly manage transportation charging credit for NGT and the DNOs. All invoices would be issued as they are now – this would obviate the need for separate invoices for each DNO. Should however different levels of Local Distribution Zone capacity and commodity charges apply for particular DNs these charges would be itemised separately on the single bill.

Security cover would not be required for each DNO's transportation charges as in the case of business failure any outstanding liabilities would be shared between NGT and the DNOs in proportion to the company's share of total transportation charges invoiced by the agent on its behalf

over a given period. Such an approach avoids the need for extra credit cover that would arise through having contract with several new organisations

Energy balancing credit arrangements by the Central Settlements Agency on behalf of shippers would continue to be managed much as they are now by NGT.

30 January 2004

